



Director of
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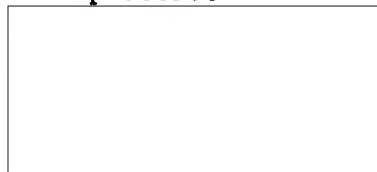
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POLAND: Increased Threat of Confrontation

Solidarity went ahead with its plans for short "warning" strikes today after the government postponed yesterday's expected meeting between union and government negotiators. []

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The strikes--which began early this morning and were to last two to four hours--were held in all economic sectors except those providing vital services and rail transportation. Solidarity's decision to keep the transportation system functioning is a recognition of Soviet sensitivities and an effort to show that it is using the strike weapon "responsibly." The union also has taken elaborate precautions to ensure that the strikes are calm and disciplined. []

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The government is attempting to put Solidarity on the political defensive by calling the strikes "suicidal" in light of Poland's economic problems. This argument has had little impact on the attitudes of the populace who see the strike as a protest against police brutality. For the same reason, Kania's call for party members not to join the strike probably went unheeded. []

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The government's postponement of talks with the union--which were slated to resume today--and its other recent behavior reinforce signs of deep divisions within the party leadership. Western reporters in Warsaw have heard rumors of a confrontation in the Politburo last weekend over the possible declaration of martial law. One or both factions in the leadership may have decided to take the case to the Central Committee session this Sunday. []

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The session now appears to be shaping up as a major confrontation between hardliners who support the imposition of martial law and moderates who are demanding punishment of those responsible for the Bydgoszcz incident and for a purge of conservatives opposed to reforms. The moderates [] hope to unseat, among others, Stefan Olszowski and two other full Politburo members. []

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As in previous periods of increased tension, the government has moved to limit Western press coverage of events in Poland. Government actions this time appear more extensive and include barring entry to any additional Western journalists and refusing Western television correspondents access to Polish facilities for transmitting their reports. [REDACTED]

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Church's Role

Prime Minister Jaruzelski yesterday discussed the tense situation with Polish Primate Wyszynski and presumably asked for the Church's intervention to help mediate with Solidarity. The two men agreed that conflicts can be resolved by peaceful means and called for a "full and objective" appraisal of the incident in Bydgoszcz. The latter statement may be a sign that the regime is willing to admit wrongdoing by the police. Jaruzelski's meeting with Wyszynski--his first ever--will help reinforce the favorable image he has within Solidarity and many other segments of the society. [REDACTED]

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Moscow Blasts Solidarity

The Soviets yesterday continued to lay the propaganda groundwork for a regime crackdown on Solidarity by issuing their most sweeping public condemnation of the union to date. [REDACTED]

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The TASS report, which described the situation in Poland as "extremely tense," made a number of charges against Solidarity, each of which on its own would be grounds for repressive measures in Moscow's eyes. It stated that Solidarity is preparing for a general strike and is flooding the country with leaflets containing "direct threats against Communists." According to Polish Deputy Premier Rakowski, Solidarity also is delivering ultimatums to the government, attacking the militia and security services, declaring a "war on peoples' power," and weakening Poland's international standing. [REDACTED]

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TASS fully backed the Polish party's tough stance on the Bydgoszcz incident. It did not shut the door

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on continued talks between the regime and Solidarity but made it clear that they can only be conducted on the regime's terms. [] 25X1

Quoting the Polish news agency, TASS stated that "measures are being taken to restore order" in light of Solidarity's "provocative" actions. This represents both a Soviet approval of such a course and, at the same time, a form of pressure on the Polish Government to carry it out fully. [] 25X1

Economic Problems

A Polish financial official said yesterday that Poland will default on its debts to Western creditors on Tuesday unless it immediately receives substantial financial assistance. He made the statement to the five-nation task force--consisting of representatives of the governments of the US, the UK, France, West Germany, and Austria--meeting in Paris to discuss re-scheduling. The Poles will pass the same message to private banks in New York today and in London on Monday. [] 25X1

The Poles are asking for \$1.3 billion through some combination of loans and deferrals of payments due in the March-June period. Polish data indicate that Poland's debt service obligations will come to about \$2.2 billion in that period. Task force members made no official response to Warsaw's plea but implied that Poland stood little chance of obtaining the quick fix it is seeking. [] 25X1

The Polish official in Paris said Poland was on the verge of default because Western banks had withdrawn deposits from Polish banks and had failed to provide promised export credits, exports had fallen below expectations, and bridge financing had been only partially implemented. Warsaw's impending bankruptcy also points to the limits of Soviet assistance. [] 25X1

The heightened political tension in recent weeks has increased food hoarding and created the worst food supply situation in years. The additional--but unsatisfied--demand for food from an already strained market

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network has increased consumer impatience and resulted in some violent confrontations with store workers. While rationing has been formally imposed only in Gdansk, local informal rationing of most staples and household goods is widespread and will probably continue for the foreseeable future.

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PAKISTAN: New Constitutional Framework

President Zia is moving boldly to gain the political initiative and strengthen his leverage over the opposition. [redacted]

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Exploiting the opposition's disarray in the aftermath of the recent hijacking, Zia on Wednesday promulgated an order that sets aside the guarantees of parliamentary government and judicial independence in the Constitution of 1973 and provides a legal framework for prolonged military rule. The order gives Zia the authority to break up the party system and make the country a benevolent, if authoritarian, Islamic state. [redacted]

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The new legislation effectively dissolves the Pakistan People's Party, the country's largest political group, and all but one of the other parties in the opposition alliance, and allows the government to control the formation of new parties. It empowers the President to appoint a quasi-legislative Federal Advisory Council and promises a resumption of political activity only at some point in the future. [redacted]

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Zia could be overreaching himself by banking on the emotional and probably transitory support resulting from the hijacking. Neither the party leaders nor important social groups--some of which have backed Zia in the past--are prepared to abandon permanently parliamentary government and judicial independence. [redacted]

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The spreading belief that Zia has brought the country to a turning point could rapidly dissipate his recent gains, revive the opposition's momentum, and unsettle key supporters in the Army and the bureaucracy who worry that Zia is going too far in making Pakistan an Islamic state. [redacted]

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EC: Summit Results

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The EC summit this week in the Netherlands was characterized by general harmony on foreign policy issues but sharp disagreement on some pressing Community internal problems.

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The summit participants followed the line reportedly taken recently by Chancellor Schmidt and President Giscard by agreeing that US foreign policy is still evolving and that a wait and see approach is necessary. In part for this reason, they reaffirmed the need to go slow on their Middle East initiative.

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The EC leaders, however, also saw an opportunity for increased West European influence on US policy. Schmidt and Prime Minister Thatcher suggested that the EC should work toward settlement of the Namibian problem.

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Although security issues are technically outside the scope of EC political cooperation, Schmidt stressed the need for US-Soviet talks on limiting theater nuclear forces. EC leaders probably have discussed NATO issues at previous summits, but this is the first time that they have publicly admitted doing so.

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The EC leaders also finally endorsed Giscard's recent proposal for an international conference on Afghanistan. On Poland, they did not specifically decide how to handle additional EC or bilateral aid.

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Disagreement over internal issues reflected the severe economic constraints the EC members now face. The Common Fisheries Policy was a subject of heated debate. Schmidt criticized Thatcher for refusing to accept a fisheries agreement which would allow West German fishermen access to Canadian waters.

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Schmidt warned that Bonn would no longer make financial sacrifices for other EC members. EC ministers will meet today to try to resolve the controversy.

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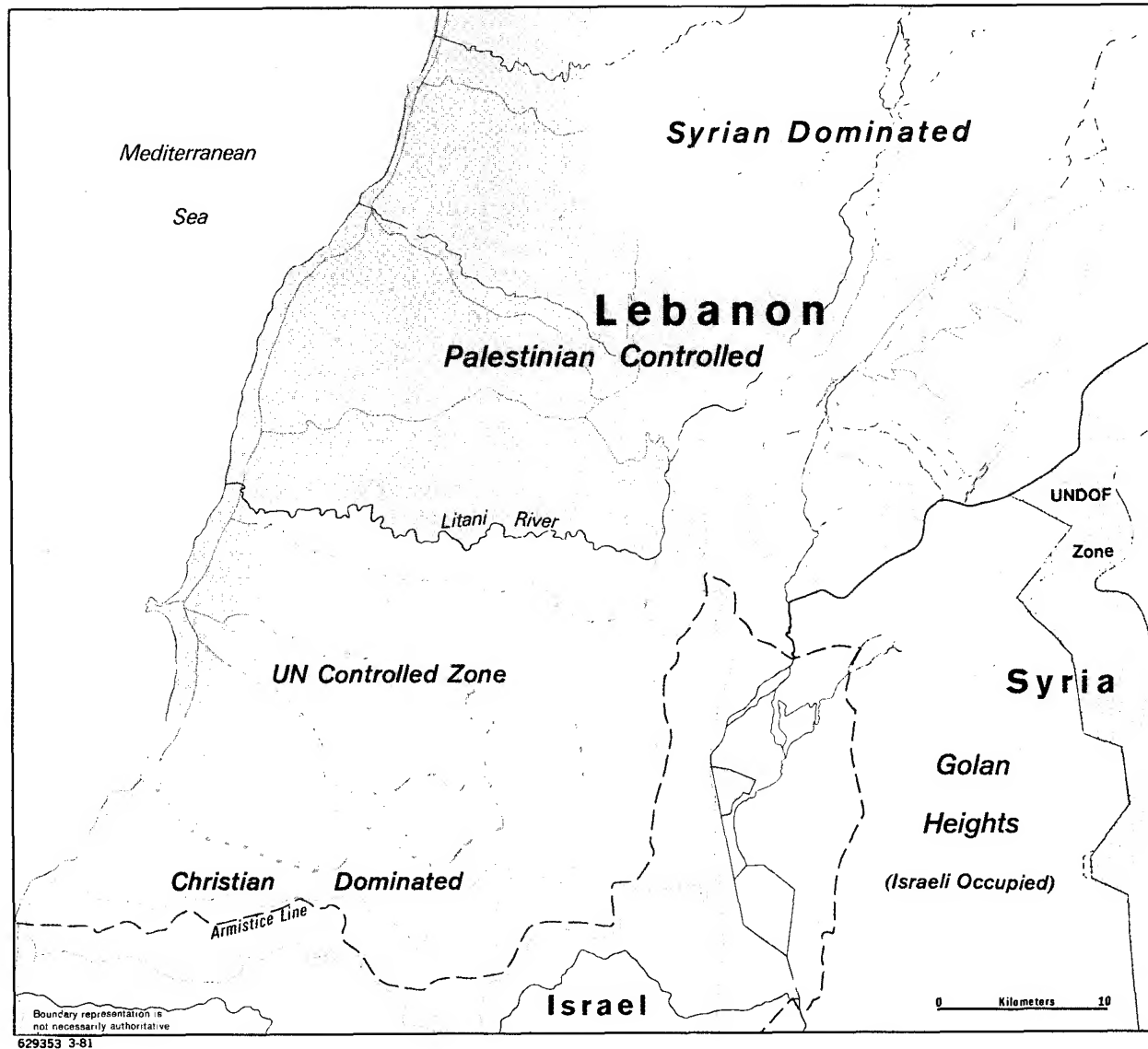
The West German leader also chastised his colleagues for continuing to subsidize their steel industries and threatened to impose import restrictions if EC members fail to limit subsidies. On farm prices, the EC leaders agreed to try again to achieve a compromise before their deadline of 1 April. This will be a difficult task because the UK and West Germany want to keep price hikes low, and Giscard--with the French election in mind--wants much larger increases.

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LEBANON: Army Units To Move South

The Lebanese Government's decision on Wednesday to send additional Lebanese Army troops to join the UN force in southern Lebanon may lead to renewed clashes there. President Sarkis told US officials in Beirut that the redeployment, which could get under way next week, would take place in stages to avoid antagonizing the Israelis. The troops, moreover, are to emphasize civic action and medical duties. Israeli-backed Christian militia leader Haddad, nevertheless, is likely to react with force if the new troops are stationed near the border enclave he dominates. Three UN soldiers were killed earlier this month when Haddad's forces shelled a UN position to protest the redeployment in the UN zone of Lebanese Army elements already in the south.

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ROMANIA: New Sign of Unrest

The US Embassy has obtained a copy of a handbill calling for the formation of free trade unions and for a general strike on 1 May and demanding the right to strike, a five-day workweek, wage increases, and a freeze on food prices. When similar handbills were discovered in various parts of the country two months ago, Romanian authorities were concerned about the apparent attempt to link discontent over food shortages and poor working conditions with developments in Poland. Their extensive efforts to find those responsible apparently had little success. The security apparatus quashed a nationwide rail strike planned for 1 March, however, and it probably would have little trouble preventing a general strike.

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President Ceausescu continues to resist making any major policy adjustments to deal with the causes of mounting worker discontent. Yesterday, in what appeared to be an attempt to improve implementation of existing policies, he replaced several high-level officials responsible for economic management. These changes, however, are unlikely to improve economic performance significantly.

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SOUTH KOREA: National Assembly Elections

The government party's sweep of 151 of the 276 seats at stake in the National Assembly elections on Wednesday marks the final stage in the transition to a government dominated by President Chun. The Democratic Justice Party performed better than even its organizers had predicted, winning 34 percent of the popular vote--up slightly from its predecessor's 31.7 percent in the election of December 1978. Only two other parties won more than two seats. Although the Democratic Justice Party's win was guaranteed by new election and party laws, vote buying, and pressure on opposition candidates to withdraw, the government will cite the unexpected margin of its victory as an expression of the people's desire for stability and continued strong leadership under Chun. In the past, the Assembly has not played a major part in policymaking, and the new legislature--scheduled to convene around 10 April--is likely to continue its passive role.

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SPECIAL ANALYSIS

ARGENTINA: Viola Takes Charge

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When retired Army General Roberto Viola replaces President Jorge Videla on Sunday, he will face massive economic problems, conflicting pressures over civilian participation in the political process, and demands for an honorable settlement of the Beagle Channel dispute with Chile. Viola's prescriptions for solving these and other problems are likely to encounter vigorous opposition as Argentina enters its sixth year of military rule.

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The politically moderate Viola will share power with a three-man junta comprising the heads of the military services. Although important government decisions will be made only after consultations with and approval by the junta, Viola is a strong leader who will seek to impose his own personal views on policymaking. He will have to contend with some influential members of the military hierarchy who are opposed to his alleged populist leanings and softness in dealing with Chile, as well as his tacit support of outgoing Economics Minister Martinez de Hoz, whose policies have left a legacy of economic uncertainty.

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Economic Situation

The ailing economy, which has registered little growth in the last five years, will be the new government's most urgent concern. Although Martinez de Hoz has restored Argentina's international financial standing and maintained full employment, he has not been able to make Argentine businesses competitive overseas or to lower the inflation rate to an acceptable level.

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A wave of bankruptcies and financial jitters, moreover, have undermined business confidence and have led to a drain on foreign reserves. To reduce inflation, the peso was allowed to become progressively more overvalued during the past year in the expectation that

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cheaper imports would force Argentine producers to cut costs and lower prices. Many businesses were unable to compete, however, and they failed, as did several financial institutions that had lent too much to founding firms. [] 25X1

The overvalued peso made Argentine exports overpriced for foreign buyers; exports, in turn, dropped while imports jumped. The sizable current account deficit reduced foreign exchange reserves in 1980 from \$11 billion to \$7 billion. [] 25X1

After Martinez de Hoz finally permitted a 10-percent devaluation in early February of this year, Argentines concluded that a more realistic devaluation would follow, and they rushed to convert pesos to dollars. The massive outflow since devaluation has further reduced reserves to a little over \$4 billion. [] 25X1

Viola's economic team now must restore confidence and stimulate growth. It probably will not be much more successful than Martinez de Hoz, however, in restraining government spending--the chief cause of inflation. [] 25X1

Additional devaluation to stimulate export production and to restrain imports is likely, but it also would be inflationary. A new round of inflation could prompt active opposition from organized labor. [] 25X1

Political Liberalization

The new President's toughest political test will be in developing a framework for bringing civilians--especially the Peronists--back into the political process. The military's timetable for reversion to civilian rule remains unclear, but it appears unwilling to accept an elected civilian government before 1987. [] 25X1

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The military is particularly wary of the Peronists, who they believe brought the country to the brink of ruin before being ousted in March 1976. Viola's cultivation of old-style party and trade union leaders also has raised suspicions in some military quarters that he will provide them a political opening. [redacted]

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Political party activities are still suspended, but recent open criticism of government policies by the parties has become harder for the authorities to ignore. Meanwhile, Viola is placing more civilians in his cabinet and at all levels of government, and his inclusion of some Peronists and Radical Party members in lower-level government jobs will add to the unease of some of his military colleagues. [redacted]

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The Beagle Channel Issue

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There also is concern [redacted] about the Beagle Channel mediation. Pope John Paul II's proposal for solving the dispute created a major split in Argentina's ruling group because its failure to establish clearly Argentine maritime claims could give rise to future disputes. [redacted]

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[redacted]

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The Argentines seem determined to draw out the talks, hoping to wear down both the Vatican and Chile, which accepts the Pope's proposal. [redacted]

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Viola [redacted]

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[redacted] will have to fend off its most influential critics, who probably would push for a military solution if the mediation fails. [redacted]

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Outlook

Viola's recent unofficial meetings with top US officials have given him an important boost. The view in Buenos Aires that he has substantially improved relations and opened the door to renewed US military sales to Argentina will afford him considerable short-term political capital. [redacted]

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The long-term success of Viola's administration, however, will depend largely upon his ability and that of his advisers to bring Argentina out of its economic doldrums. Although they probably will continue to adhere to free market principles, some major changes in policy will be required. [REDACTED]

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The new leadership has not yet agreed on specifics, but the more extreme measures that may be necessary will be hard to sell. Argentines are not accustomed to austere living. [REDACTED]

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The onus of failure will fall more directly upon Viola than it did upon Videla because he will assume more responsibility for economic decisionmaking. A major improvement in the economy appears essential before any real progress can be made in Viola's cherished program of political liberalization. Until that time, Viola will have to summon all of his political skills to mollify his military opponents, who mistrust and could try to overthrow him, and civilian political leaders, who believe that military rule has nearly exhausted itself. [REDACTED]

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